Bates Financial Advisors, Inc.

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This brochure provides information about the qualifications and business practices of Bates Financial Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at 815-332-4020. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Bates Financial Advisors, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Bates Financial Advisors, Inc. is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

Item 2 Summary of Material Changes

This Item will be used to provide our clients with a summary of new and/or updated information.

Since our last annual update dated April 30, 2020, we have had the following material changes to this brochure:

- Ownership Change - On August 12, 2020, George E. Bates repurchased the entire interest in Bates Financial Advisors, Inc. from QCR Holdings, Inc.

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Item 4 Advisory Business

Bates Financial Advisors, Inc. is an SEC-registered investment adviser with its principal place of business located in Illinois. Bates Financial Advisors, Inc. began conducting business in 1984.

Bates Financial Advisors, Inc is owned 100% by George E. Bates, its founder.

Bates Financial Advisors, Inc. offers the following advisory services to our clients:

INVESTMENT PORTFOLIO MANAGEMENT

Our firm provides non-continuous asset management of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on the client's particular circumstances are established, we develop the client's personal investment policy. We create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we may also review and discuss a client's prior investment history, as well as family composition and background.

We manage these advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by the client's stated objectives (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Once the client's portfolio has been established, we review the portfolio at least annually, and if necessary, suggest or implement changes to the portfolio based on the client's needs.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company and will generally include advice regarding the following securities:

- Mutual fund shares
- Money market accounts or cash equivalents
- United States governmental securities
- Certificates of deposit
- Variable life insurance
- Variable annuities
- 529 plans
- Other

Because some types of investments involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

FINANCIAL PLANNING

We provide financial planning services. Financial planning is a comprehensive evaluation of a client's current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans. Through the financial planning process, all questions, information and analysis are considered as they impact and are impacted by the entire financial and life situation of the client. Clients purchasing this service may receive a written report which provides the client with a detailed financial plan designed to assist the client achieve his or her financial goals and objectives.

In general, the financial plan may address any or all of the following areas:

PERSONAL: We review family records, budgeting, personal liability, estate information and financial goals.

TAX & CASH FLOW: We analyze the client's income tax and spending and planning for past, current and future years; then illustrate the impact of various investments on the client's current income tax and future tax liability.

INVESTMENTS: We analyze investment alternatives and their effect on the client's portfolio.

INSURANCE: We review the adequacy of specific types of insurance coverage, which will not include the client's medical, long-term, property or casualty policies, such as homeowners and automobile policies.

RETIREMENT: We analyze current strategies and investment plans to help the client achieve his or her retirement goals.

DEATH & DISABILITY: We review the client's cash needs at death, income needs of surviving dependents, estate planning and disability income.

ESTATE: We assist the client in assessing and developing long-term strategies, including as appropriate, living trusts, wills, review estate tax, powers of attorney, asset protection plans, nursing homes, Medicaid and elder law.

We garner relevant client information through in-depth personal interviews. Such information may include the client's current financial status, tax status, future goals, returns, objectives and attitudes towards risk. We carefully review documents supplied by the client, including any questionnaire completed by the client, and may prepare a written report. Should the client choose to implement the recommendations contained in the plan, we suggest the client work closely with his/her attorney, accountant, insurance agent, and/or stockbroker. Implementation of financial plan recommendations is entirely at the client's discretion.

We also provide general non-securities advice on topics that may include tax and budgetary planning, estate planning and business planning. Typically, the financial plan is presented to the client within six months of the contract date, provided that all information needed to prepare the financial plan has been promptly provided.

Financial Planning recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company.

CONSULTING SERVICES

Clients can also receive investment advice on a more focused basis. This may include advice on only an isolated area(s) of concern such as estate planning, retirement planning, or any other specific topic. We also provide specific consultation and administrative services regarding investment and financial concerns of the client.

Consulting recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company.

AMOUNT OF MANAGED ASSETS

As of December 31, 2019, we actively manage $521,148,456 of clients' assets on a discretionary basis and $6,358,594 of clients' assets on a non-discretionary basis.

Item 5 Fees and Compensation

Fees are billed quarterly in arrears based on the previous quarter-end account value. Fees may be deducted from client accounts or invoiced directly to the client.

INVESTMENT PORTFOLIO MANAGEMENT SERVICES FEES

Our annual fees for Investment Portfolio Management Services are based upon a percentage of assets under management and generally range from 0.25% to 1.00%.

A minimum of $100,000 of assets under management is required for this service. This account size may be negotiable under certain circumstances. A minimum quarterly fee of $175 will be assessed. Bates Financial Advisors, Inc. may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

Limited Negotiability of Advisory Fees: Although Bates Financial Advisors, Inc. has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs will be considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, and reports, among other factors. The specific annual fee schedule will be identified in the contract between the adviser and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

FINANCIAL PLANNING FEES

Bates Financial Advisors, Inc.'s Financial Planning fee will be determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our Financial Planning fees may be calculated and charged on an hourly basis, ranging from $75 to $1,000 per hour. Although the length of time it will take to provide a Financial Plan will depend on each client's personal situation, we will provide an estimate for the total hours at the start of the advisory relationship.

Alternatively, our Financial Planning fees may be calculated and charged on a fixed fee basis, typically ranging from $500 to $15,000, depending on the specific arrangement reached with the client.

We may request a retainer upon completion of our initial fact-finding session with the client; however, advance payment will never exceed $1,200 for work that will not be completed within six months. The balance is due upon completion of the plan.

Financial Planning Fee Offset: Bates Financial Advisors, Inc. reserves the discretion to reduce or waive the hourly fee and/or the minimum fixed fee if a financial planning client chooses to engage us for our Investment Portfolio Management Services.

The client will be billed quarterly in arrears.

CONSULTING SERVICES FEES

Bates Financial Advisors, Inc.'s Consulting Services fee will be determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our Consulting Services fees are calculated and charged on an hourly basis, ranging from $75 to $1,000 per hour. An estimate for the total hours is determined at the start of the advisory relationship.

Our Consulting Services fees are calculated and charged on a fixed fee basis, typically ranging from $500 to $15,000, subject to the specific arrangement reached with the client.

The client will be billed quarterly in arrears.

GENERAL INFORMATION

Termination of the Advisory Relationship: A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice. As disclosed above, certain fees are paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro-rate the reimbursement according to the number of days remaining in the billing period.

Mutual Fund Fees: All fees paid to Bates Financial Advisors, Inc. for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Our firm receives 12b-1 fees in connection with mutual funds purchased or held for advisory client accounts. This compensation is separate and in addition to our advisory fees. This practice presents a conflict of interest because we have an incentive to recommend mutual funds for which we receive 12b-1 fees rather than solely based on your needs. We can select or recommend, and in many instances will select or recommend to our advisory clients, mutual fund investments in share classes that pay 12b-1 fees when clients are eligible to purchase share classes of the same funds that do not pay such fees and are less expensive. This presents a conflict of interest. You are under no obligation, contractually or otherwise, to purchase or hold securities products through our firm or any affiliate.

Mutual Fund Fee Credit: Bates Financial Advisors, Inc. provides an advisory fee credit for clients invested in mutual fund share classes that have 12b-1 expenses. The credit is equal to .0625% for each mutual fund the client holds in the account that pays a 12b-1 fee. The fee credit amount is calculated based on the previous quarter-end value of each mutual fund that pays a 12b-1 fee.

Compensation for the Sale of Securities or Other Investment Products

Persons providing investment advice on behalf of our firm are registered representatives with Bates Securities, Inc., a securities broker-dealer, and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. In their capacity as registered representatives, these persons will receive commission-based compensation in connection with the purchase and sale of securities or other investment products, including asset-based sales charges, service fees or 12b-1 fees, or holding, of mutual funds for the sale of investment company products. Compensation earned by these persons in their capacities as registered representatives is separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice to advisory clients on behalf of our firm who are registered representatives have an incentive to recommend investment products based on the compensation received effect securities transactions for the purpose of generating commissions rather than solely based on your needs. Persons providing investment advice to advisory clients on behalf of our firm can select or recommend, and in many instances will select or recommend, mutual fund investments in share classes that pay 12b-1 fees when clients are eligible to purchase share classes of the same funds that do not pay such fees and are less expensive. This presents a conflict of interest. You are under no obligation, contractually or otherwise, to purchase securities products through any person affiliated with our firm who receives compensation described above.

We may recommend that you purchase variable annuities to be included in your investment portfolio(s). Persons providing investment advice on behalf of our firm will earn commissions on the sale of the variable annuities in his or her capacity as a registered representative of Bates Securities, Inc. This practice presents a conflict of interest because persons providing investment advice to advisory clients on behalf of our firm who are registered representatives have an incentive to recommend investment products based on the compensation received to effect securities transactions for the purpose of generating commissions rather than solely based on your needs. If these persons earn commission on the sale of variable annuities recommended to you, we will not include the annuity accounts in the total value used for our advisory billing/fee computation for two-year period of time after the annuity contract is sold. After the two-year period, the value of the annuity subaccounts will be added to the value of your total assets for billing purposes. Annuities will be purchased for your account only after you receive a prospectus disclosing terms of the annuity. You are under no obligation, contractually or otherwise, to purchase variable annuities through any person affiliated with our firm.

Persons providing investment advice on behalf of our firm are licensed as independent insurance agents. These persons will earn commission-based compensation for selling insurance products, including insurance products they sell to you. Insurance commissions earned by these persons are separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are insurance agents have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. You are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm.

Additional Fees and Expenses: In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker-dealers, including, but not limited to, any transaction charges imposed by a broker-dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to Item 12 of this Form ADV for additional information.

Grandfathering of Minimum Account Requirements: Pre-existing advisory clients are subject to Bates Financial Advisors, Inc.'s minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum account requirements will differ among clients.

ERISA Accounts: Bates Financial Advisors, Inc. is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"). As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, Bates Financial Advisors, Inc. may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees, or conversely, investment advice about products for which our firm and/or our related persons receive commissions or 12b-1 fees, however, only when such fees are used to offset Bates Financial Advisors, Inc.'s advisory fees.

Advisory Fees in General: Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

Limited Prepayment of Fees: Under no circumstances do we require or solicit payment of fees in excess of $1,200 more than six months in advance of services rendered.

Item 6 Performance-Based Fees and Side-By-Side Management

We do not accept performance-based fees or participate in side-by-side management.

Item 7 Types of Clients

Bates Financial Advisors, Inc. provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Pension and profit-sharing plans (other than plan participants)
- Charitable organizations
- Corporations or other businesses not listed above
- State or municipal government entities

As previously disclosed in Item 5, our firm has established certain minimum account requirements both initially and to maintain an account, based on the nature of the service(s) being provided. For a more detailed understanding of those requirements, please review the disclosures provided in each applicable service.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

Our Methods of Analysis and Investment Strategies
We may use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

Long-Term Purchases - securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

> **Risk:** Using a long-term purchase strategy generally assumes the financial markets will go up in the long-term which may not be the case. There is also the risk that the segment of the market that you are invested in or perhaps just your particular investment will go down over time even if the overall financial markets advance. Purchasing investments long-term may create an opportunity cost - "locking-up" assets that may be better utilized in the short-term in other investments.

Short-Term Purchases - securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.

> **Risk:** Using a short-term purchase strategy generally assumes that we can predict how financial markets will perform in the short-term which may be very difficult and will incur a disproportionately higher amount of transaction costs compared to long-term trading. There are many factors that can affect financial market performance in the short-term (such as short-term interest rate changes, cyclical earnings announcements, etc.) but may have a smaller impact over longer periods of time.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial information, liquidity needs and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio. **It is important that you notify us immediately with respect to any material changes to your financial circumstances, including, for example, a change in your current or expected income level, tax circumstances, or employment status.**

Risk of Loss
Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

Other Risk Considerations
When evaluating risk, financial loss may be viewed differently by each client and may depend on many different risks, each of which may affect the probability and magnitude of any potential losses. The following risks may not be all-inclusive but should be considered carefully by a prospective client before retaining our services.

Liquidity Risk: The risk of being unable to sell your investment at a fair price at a given time due to high volatility or lack of active liquid markets. You may receive a lower price or it may not be possible to sell the investment at all.

Credit Risk: Credit risk typically applies to debt investments such as corporate, municipal, and sovereign fixed-income or bonds. A bond issuing entity can experience a credit event that could impair or erase the value of an issuer's securities held by a client.

Inflation and Interest Rate Risk: Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less and may reduce the purchasing power of a client's future interest payments and principal. Inflation also generally leads to higher interest rates which may cause the value of many types of fixed-income investments to decline.

Horizon and Longevity Risk: The risk that your investment horizon is shortened because of an unforeseen event, for example, the loss of your job. This may force you to sell investments that you were expecting to hold for the long term. If you must sell at a time that the markets are down, you may lose money. Longevity Risk is the risk of outliving your savings. This risk is particularly relevant for people who are retired or are nearing retirement.

Recommendation of Particular Types of Securities
We recommend various types of securities and we do not primarily recommend one particular type of security over another since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with the investment. A description of the types of securities we may recommend to you and some of their inherent risks are provided below.

Money Market Funds: A money market fund is technically a security. The fund managers attempt to keep the share price constant at $1/share. However, there is no guarantee that the share price will stay at $1/share. If the share price goes down, you can lose some or all of your principal. The U.S. Securities and Exchange Commission ("SEC") notes that "While investor losses in money market funds have been rare, they are possible." In return for this risk, you should earn a greater return on your cash than you would expect from a Federal Deposit Insurance Corporation ("FDIC") insured savings account (money market funds are not FDIC insured). Next, money market fund rates are variable. In other words, you do not know how much you will earn on your investment next month. The rate could go up or go down. If it goes up, that may result in a positive outcome. However, if it goes down and you earn less than you expected to earn, you may end up needing more cash. A final risk you are taking with money market funds has to do with inflation. Because money market funds are considered to be safer than other investments like stocks, long-term average returns on money market funds tend to be less than long term average returns on riskier investments. Over long periods of time, inflation can eat away at your returns.

Certificates of Deposit: Certificates of deposit ("CD") are generally a safe type of investment since they are insured by the Federal Deposit Insurance Company ("FDIC") up to a certain amount. However, because the returns are generally low, there is risk that inflation outpaces the return of the CD. Certain CDs are traded in the market place and not purchased directly from a banking institution. In addition to trading risk, when CDs are purchased at a premium, the premium is not covered by the FDIC.

Municipal Securities: Municipal securities, while generally thought of as safe, can have significant risks associated with them including, but not limited to: the creditworthiness of the governmental entity that issues the bond; the stability of the revenue stream that is used to pay the interest to the

bondholders; when the bond is due to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same amount of interest or yield to maturity.

Mutual Funds and Exchange-Traded Funds: Mutual funds and exchange-traded funds ("ETF") are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities, or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds and ETFs generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small-cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. ETFs differ from mutual funds since they can be bought and sold throughout the day like stock and their price can fluctuate throughout the day. The returns on mutual funds and ETFs can be reduced by the costs to manage the funds. Also, while some mutual funds are "no-load" and charge no fee to buy into, or sell out of, the fund, other types of mutual funds do charge such fees which can also reduce returns. Mutual funds can also be "closed-end" or "open-end". So-called "open-end" mutual funds continue to allow in new investors indefinitely whereas "closed end" funds have a fixed number of shares to sell which can limit their availability to new investors.

ETFs may have tracking error risks. For example, the ETF investment adviser may not be able to cause the ETF's performance to match that of its Underlying Index or other benchmark, which may negatively affect the ETF's performance. In addition, for leveraged and inverse ETFs that seek to track the performance of their Underlying Indices or benchmarks on a daily basis, mathematical compounding may prevent the ETF from correlating with the performance of its benchmark. In addition, an ETF may not have investment exposure to all of the securities included in its Underlying Index, or its weighting of investment exposure to such securities may vary from that of the Underlying Index. Some ETFs may invest in securities or financial instruments that are not included in the Underlying Index, but which are expected to yield similar performance.

Variable Annuities: A variable annuity is a form of insurance where the seller or issuer (typically an insurance company) makes a series of future payments to a buyer (annuitant) in exchange for the immediate payment of a lump sum (single-payment annuity) or a series of regular payments (regular-payment annuity). The payment stream from the issuer to the annuitant has an unknown duration based principally upon the date of death of the annuitant. At this point, the contract will terminate and the remainder of the funds accumulated forfeited unless there are other annuitants or beneficiaries in the contract. Annuities can be purchased to provide an income during retirement. Unlike fixed annuities that make payments in fixed amounts or in amounts that increase by a fixed percentage, variable annuities, pay amounts that vary according to the performance of a specified set of investments, typically bond and equity mutual funds. Many variable annuities typically impose asset-based sales charges or surrender charges for withdrawals within a specified period. Variable annuities may impose a variety of fees and expenses, in addition to sales and surrender charges, such as mortality and expense risk charges; administrative fees; underlying fund expenses; and charges for special features, all of which can reduce the return. Earnings in a variable annuity do not provide all the tax advantages of 401(k)s and other before-tax retirement plans. Once the investor starts withdrawing money from their variable annuity, earnings are taxed at the ordinary income rate, rather than at the lower capital gains rates applied to other non-tax-deferred vehicles which are held for more than one year. Proceeds of most variable annuities do not receive a "step-up" in cost basis when the owner dies like stocks, bonds and mutual funds do. Some variable annuities offer "bonus credits." These are usually not free. In order to fund them, insurance companies typically impose mortality and expense charges and surrender charge periods. In an exchange of an existing annuity for a new annuity (so-called 1035

exchanges), the new variable annuity may have a lower contract value and a smaller death benefit; may impose new surrender charges or increase the period of time for which the surrender charge applies; may have higher annual fees; and provide another commission for the broker.

Item 9 Disciplinary Information

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.

Item 10 Other Financial Industry Activities and Affiliations

Registrations with Broker-Dealer
Persons providing investment advice on behalf of our firm are registered representatives with Bates Securities, Inc. a securities broker-dealer, and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. See the *Fees and Compensation* section in this brochure for more information on the compensation received by registered representatives who are affiliated with our firm.

Arrangements with Affiliated Entities
We are affiliated with Bates Securities, Inc. through common control and ownership. The affiliate is a securities broker-dealer and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. Persons providing investment advice on behalf of our firm are also registered representatives with our affiliate broker-dealer. In their capacity as registered representatives, these persons will receive commission-based compensation in connection with the purchase and sale of securities, including 12b-1 fees for the sale of investment company products. Compensation earned by these persons in their capacities as registered representatives is separate from our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are registered representatives have an incentive to effect securities transactions for the purpose of generating commissions rather than solely based on your needs.

We are affiliated with QCR Holdings, Inc. through common control and ownership. We will recommend that you use the services of our affiliate if appropriate for your needs. Our advisory services are separate and distinct from the compensation paid to our affiliate for their services.

We are affiliated with Bates Financial Services, Inc. through common control and ownership. Therefore, persons providing investment advice on behalf of our firm may be licensed as insurance agents. These persons will earn commission-based compensation for selling insurance products, including insurance products they sell to you. Insurance commissions earned by these persons are separate from our advisory fees. See the *Fees and Compensation* section in this brochure for more information on the compensation received by insurance agents who are affiliated with our firm. This affiliated firm is otherwise regulated by the professional organizations to which it belongs and must comply with the rules of those organizations. These rules may prohibit paying or receiving referral fees to or from investment advisers that are not members of the same organization.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Description of Our Code of Ethics
We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for persons associated with our firm. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All persons associated with our firm are expected to adhere strictly to these guidelines. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this brochure.

Participation or Interest in Client Transactions
Neither our firm nor any persons associated with our firm have any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this brochure.

Personal Trading Practices
Our firm or persons associated with our firm may buy or sell the same securities that we recommend to you or securities in which you are already invested. A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, it is our policy that neither our firm nor persons associated with our firm shall have priority over your account in the purchase or sale of securities.

Item 12 Brokerage Practices

We recommend the brokerage and custodial services of several brokers (including, however, not limited to TD Ameritrade, Inc. and American Funds) (whether one or more "Custodian"). In very limited situations we may recommend Bates Securities, Inc. for non-custodian services. Your assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. In recognition of the value of the services the Custodian provides, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

We seek to recommend a custodian/broker that will hold your assets and execute transactions on terms that are, overall, the most favorable compared to other available providers and their services. We consider various factors, including:

- Capability to buy and sell securities for your account itself or to facilitate such services.
- The likelihood that your trades will be executed.
- Availability of investment research and tools.
- Overall quality of services.
- Competitiveness of price.
- Reputation, financial strength, and stability.
- Existing relationship with our firm and our other clients.

Research and Other Soft Dollar Benefits
We do not have any soft dollar arrangements.

Economic Benefits

As a registered investment adviser, we have access to the institutional platform of your account custodian. As such, we will also have access to research products and services from your account custodian and/or other brokerage firms. These products may include financial publications, information about particular companies and industries, research software, and other products or services that provide lawful and appropriate assistance to our firm in the performance of our investment decision-making responsibilities. Such research products and services are provided to all investment advisers that utilize the institutional services platforms of these firms and are not considered to be paid for with soft dollars. However, you should be aware that the commissions charged by a particular broker for a particular transaction or set of transactions may be greater than the amounts another broker who did not provide research services or products might charge.

Brokerage for Client Referrals

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

Directed Brokerage

For clients in need of brokerage or custodial services, and depending on client circumstances and needs, BFAI may use one of several brokers (including, however, not limited to TD Ameritrade and American Funds) provided that the broker-dealer will provide services consistent with BFAI's fiduciary duty to the client. Clients should independently evaluate any proposed broker-dealer before opening an account. In selecting a broker-dealer of record for the client, BFAI will consider the following: the broker-dealer's ability to provide professional services, BFAI's experience with the broker-dealer, the broker-dealer's reputation, the broker-dealer's quality of execution of services, and the costs of such services, among other factors.

Persons providing investment advice on behalf of our firm who are registered representatives of Bates Securities, Inc. will recommend Bates Securities, Inc. to you for brokerage services. These individuals are subject to applicable rules that restrict them from conducting securities transactions away from Bates Securities, Inc. unless Bates Securities, Inc. provides the representative with written authorization to do so. Therefore, these individuals are generally limited to conducting securities transactions through Bates Securities, Inc. It may be the case that Bates Securities, Inc. charges higher transaction costs and/or custodial fees than another broker charges for the same types of services. If transactions are executed through Bates Securities, Inc., these individuals (in their separate capacities as registered representatives of Bates Securities, Inc.) may earn commission-based compensation as a result of placing the recommended securities transactions through Bates Securities, Inc. This practice presents a conflict of interest because these registered representatives have an incentive to effect securities transactions for the purpose of generating commissions rather than solely based on your needs. You may utilize the broker-dealer of your choice and have no obligation to purchase or sell securities through such broker as we recommend. However, if you do not use Bates Securities, Inc., we may not be able to accept your account. See the *Fees and Compensation* section in this brochure for more information on the compensation received by registered representatives who are affiliated with our firm.

Item 13 Review of Accounts

INVESTMENT PORTFOLIO MANAGEMENT SERVICES

Reviews: While the underlying securities within Investment Portfolio Management Services accounts are continually monitored, these accounts are reviewed at least annually. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by the Investment Adviser Representative assigned to the client account(s).

Reports: In addition to the investment statements and confirmations of transactions that Investment Portfolio Management Services clients receive from their broker-dealer, Bates Financial Advisors, Inc. will provide annual (or as frequently as needed (i.e., quarterly) reports summarizing account performance, balances and holdings.

FINANCIAL PLANNING SERVICES

Reviews: While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Financial Planning clients unless otherwise contracted for.

Reports: Financial Planning clients will receive a completed financial plan. Additional reports typically will not be provided unless contracted accordingly.

CONSULTING SERVICES

Reviews: While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Consulting Services clients unless otherwise contracted for. Such reviews will be conducted by the client's account representative.

Reports: These client accounts will receive reports as contracted for at the inception of the advisory engagement.

Item 14 Client Referrals and Other Compensation

As disclosed under the *Fees and Compensation* section in this brochure, persons providing investment advice on behalf of our firm are licensed insurance agents and are registered representatives with Bates Securities, Inc., a securities broker-dealer, and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. For information on the conflicts of interest this presents, and how we address these conflicts, refer to the *Fees and Compensation* section.

We do not receive any compensation from any third party in connection with providing investment advice to you nor do we compensate any individual or firm for client referrals.

Refer to the *Brokerage Practices* section above for disclosures on research and other benefits we may receive resulting from our relationship with your account custodian.

Item 15 Custody

We previously disclosed in Item 5 of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

Standing Letter of Authorization

Our firm, or persons associated with our firm, may effect wire transfers from client accounts to one or more third parties designated, in writing, by the client without obtaining written client consent for each separate, individual transaction, as long as the client has provided us with written authorization to do so. Such written authorization is known as a Standing Letter of Authorization. An adviser with authority to conduct such third-party wire transfers has access to the client's assets and therefore has custody of the client's assets in any related accounts.

However, we do not have to obtain a surprise annual audit, as we otherwise would be required to by reason of having custody, as long as we meet the following criteria:

1. You provide a written, signed instruction to the qualified custodian that includes the third party's name and address or account number at a custodian;
2. You authorize us in writing to direct transfers to the third party either on a specified schedule or from time to time;
3. Your qualified custodian verifies your authorization (e.g., signature review) and provides a transfer of funds notice to you promptly after each transfer;
4. You can terminate or change the instruction;
5. We have no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party;
6. We maintain records showing that the third party is not a related party to us nor located at the same address as us; and
7. Your qualified custodian sends you, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

We hereby confirm that we meet the above criteria.

Item 16 Investment Discretion

Before we can buy or sell securities on your behalf, you must first sign our discretionary management agreement and the appropriate trading authorization forms.

You may grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s), the broker or dealer to be used for each transaction, and over the commission rates to be paid without obtaining your consent or approval prior to each transaction. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s). For example, you may specify that the investment in any particular stock or industry should

not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security. Refer to the *Advisory Business* section in this Brochure for more information on our discretionary management services.

If you enter into non-discretionary arrangements with our firm, we will obtain your approval prior to the execution of any transactions for your account(s). You have an unrestricted right to decline to implement any advice provided by our firm on a non-discretionary basis.

Item 17 Voting Client Securities

We will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of applicable securities, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitations to vote proxies.

Item 18 Financial Information

Bates Financial Advisors, Inc. has no additional financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of $1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

Bates Financial Advisors, Inc. has not been the subject of a bankruptcy petition at any time during the past ten years.